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1995 ANNUAL REPORT

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Transmittal Letter

August 15, 1996

The Honourable David Tsubouchi
Minister of Consumer and Commercial Relations
Government of Ontario

Dear Mr. Minister:

On behalf of the Board of Directors of the Ontario New Home Warranty Program, I have the honour to submit to you the corporation's annual report, together with its financial statements for the year 1995.

I would like to thank the members of your Ministry for their assistance to the Ontario New Home Warranty Program during the past year.

Sincerely,

A handwritten signature in dark ink, appearing to read "Hugh Heron". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Hugh Heron
Chair



Ontario New Home Warranty Program Highlights

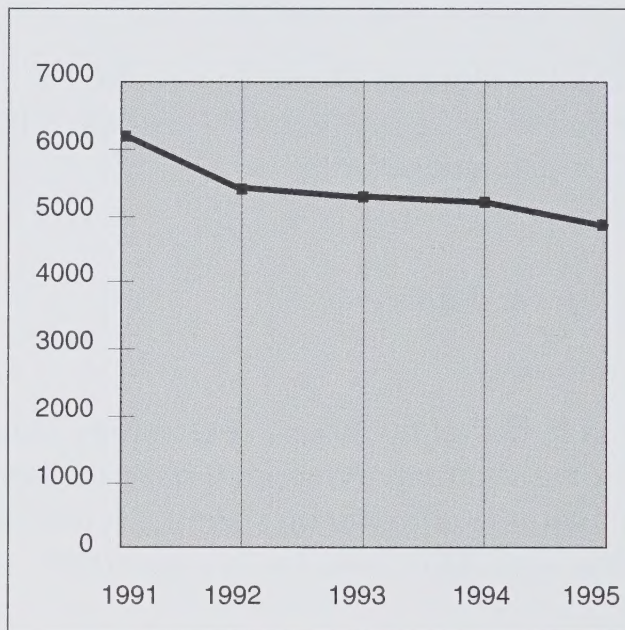
The Ontario New Home Warranty Program (ONHWP) was established in 1976 by home builders as an independent, non-profit corporation. Its mandate: to provide warranty coverage to buyers of new homes in Ontario. The ONHWP is charged with the administration of the *Ontario New Home Warranties Plan Act* by the Government of Ontario. Objectives of the Act are (a) consumer protection, (b) builder regulation, and (c) consumer and builder education.

Since its establishment, ONHWP has enrolled more than 790,000 new homes in Ontario in its program. Today, more than 275,000 homes are protected by its warranty coverage.

Builder Registrations

The *Ontario New Home Warranties Plan Act* requires that every new home builder or vendor in Ontario be registered with ONHWP. In 1995, 4,941 builders registered with the Program: this sum represents a six per cent decrease from the previous year.

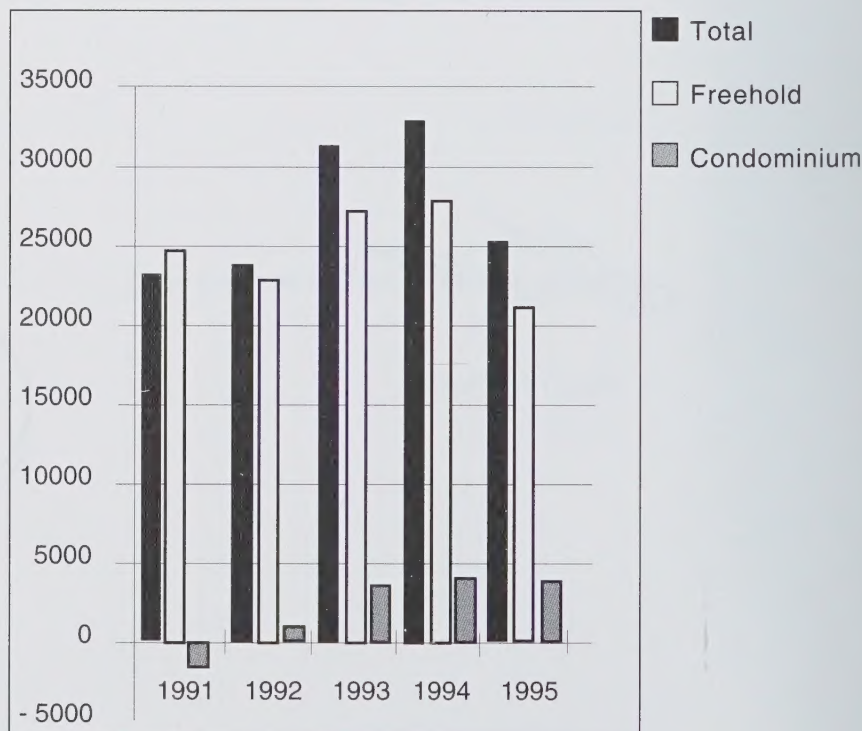
Year	Total
1995	4,941
1994	5,247
1993	5,289
1992	5,462
1991	6,176



New Home Enrolments

During 1995, enrolments of new homes declined significantly to 25,300 net units. Twenty-two hundred units (including 400 freehold and 1,800 condominiums) were cancelled.

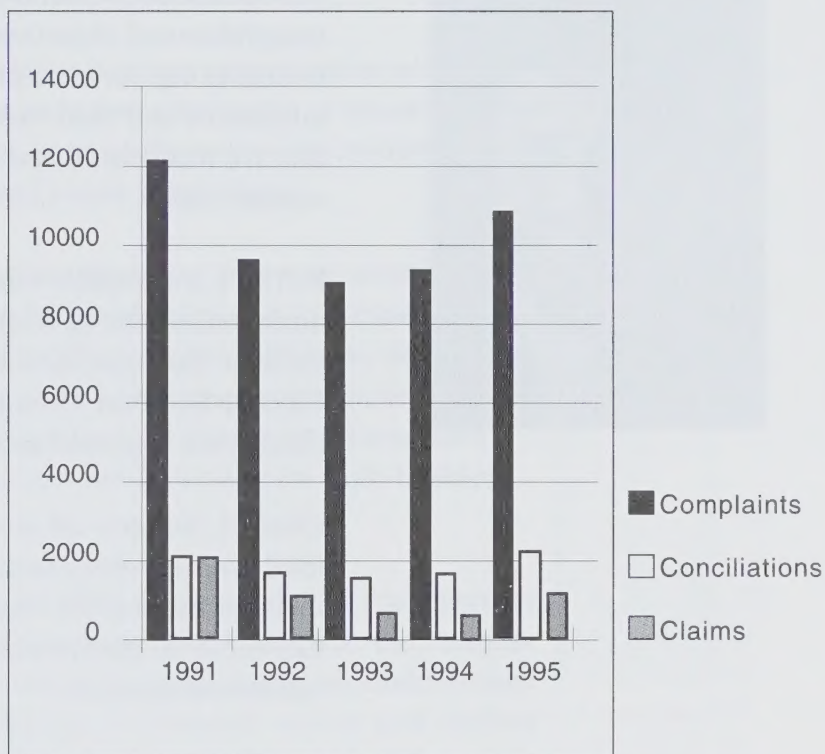
Year	Total	Freehold	Condominium
1995	25,300	21,100	4,200
1994	32,300	28,000	4,300
1993	31,300	27,500	3,800
1992	24,200	23,000	1,200
1991	23,300	25,000	(1,700)



Number of Claims, Complaints, and Conciliations

In 1995, claims, complaints, and conciliations primarily rose due to increasing numbers of builders' insolvencies.

Year	No. of Claims	No. of Conciliations	No. of Complaints
1995	1,250	2,300	10,950
1994	690	1,760	9,400
1993	700	1,630	8,975
1992	1,270	1,740	9,675
1991	2,010	2,070	12,240

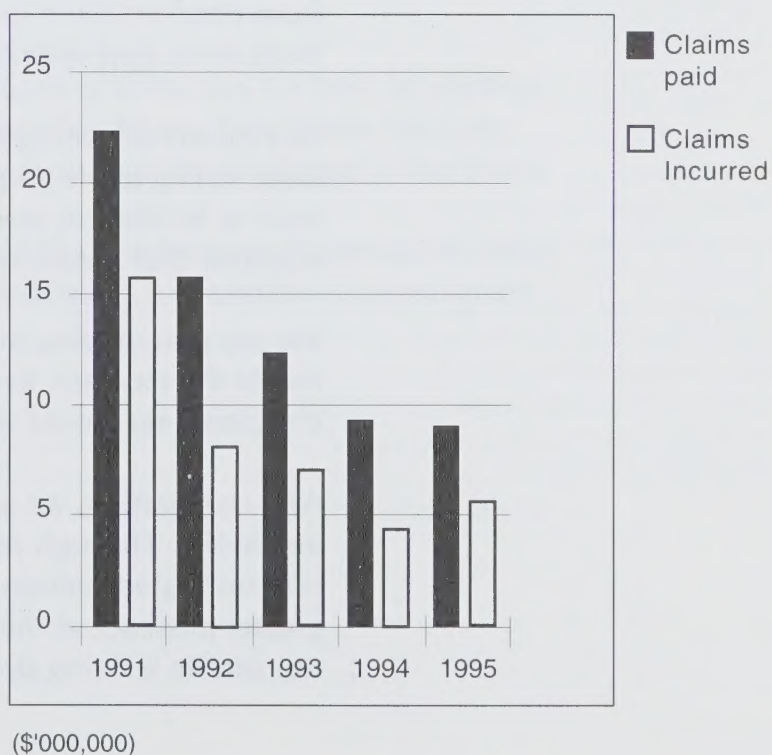


Incurred, Paid, and Recovered Claims

Claims incurred by ONHWP in 1995 increased 40 per cent over the previous year. Claims paid by ONHWP in 1995 (excluding those related to plastic venting) declined seven per cent from 1994 to \$8.8 million. This decrease was due to the continued resolution of claims from the earlier building boom. Claims recovered from vendors in 1995 increased dramatically due to a substantial effort in this area by the corporation.

Year	Claims Paid	Claims Recovered	Change in O/S Claims	Claims Incurred
1995	8.8	3.6	.7	5.9
1994	9.5	2.1	(3.2)	4.2
1993	12.2	2.3	(3.1)	6.8
1992	15.7	4.7	(2.9)	8.1
1991	22.3	7.1	0.5	15.7

Since 1976, the ONHWP has paid out over \$136 million in both freehold and condominium claims. Over 50 per cent of these claims have occurred over the last five years.



Report of the President/Registrar

The year 1995 marked the bottom of the trough for the Ontario economy.

While the Ontario New Home Warranty Program (ONHWP) saw steady business throughout 1995, much of it was linked to more frequent consumer complaints, a rise in builder insolvencies, and the need for enlarged enforcement efforts against the burgeoning underground economy.



Faced with these challenges, we at ONHWP took action on a number of business strategies and put aggressive plans into place. These plans had straightforward objectives, those of simplifying every aspect of our business. In analyzing our core principles, we addressed independently, all of our audiences and their needs. Future new business development required that we modernize and re-evaluate our value to consumers, builders, and vendors alike.

In 1995, a complete evaluation was done to determine our areas of least and greatest risk as related to the various classes of builders and products. Builder Bulletin 28 was revised to match that risk to the security taken. Builder Bulletin 19 was likewise revised to reduce the burden earlier placed on freehold builders for higher costing condominiums.

Overall, Bulletin 28 serves to reduce builders' burdens by reducing the total amount of security required of them. It further eases their burden through its Deposit Trust Agreement (DTA) which allows for deferral of full security payment until conclusion of the marketing phases for residential projects.

Bulletin 19's requirement of design certification and monthly field reports by construction team members further acts to cut grievances from condominium boards of directors, and so places them on a more even keel with the builders of their homes.

As a means of leveling the playing field for vendors of new homes over those selling resale properties, ONHWP offered a number of marketing tools to builders to make consumers aware of the advantages of the warranty that comes with the purchase of a new home.

We are also moving from shared risk to one which differentiates the risk in the industry. By rewarding builder excellence with lower fees, the consumer would soon gain better choice, price, and quality.

As a corporation, we are continuing to improve our visibility, image, and skills. Through increased speaking engagements, innovative continuing education programs for staff at York University, and a greater presence at the National Home Show and other such forums, our profile is being strengthened.

Setting the scene for 1996, ONHWP is examining the feasibility of offering other warranty products for today's changed housing market. These include renovation warranty on significant additions that substitute for new home construction and provide expanded uses for today's homeowner. We are likewise looking at broadening the scope of our warranty coverage to include homes not currently covered by the existing warranty: those residential condominiums converted from commercial office and industrial space, and those homes rebuilt on existing footings or foundations.

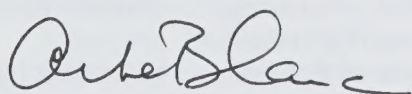
ONHWP is further examining other business opportunities where we might offer core competencies including a full range of inspection and consulting services. Among the areas under review are maintenance, environmental, renovation, and resale inspections.

ONHWP is also considering the reframing of a new, modern Act and Regulations designed to better reflect what is happening in the marketplace today. And finally, as we continue to develop a clearer focus on the Company's insurance and surety roles, we look towards the development of ever more favorable differentiation of pricing of surety and insurance for both builders and consumers alike.

As we at ONHWP approach our 20th anniversary, our management task is to have a narrower, clearer vision of our business. Our attitude must embrace self-examination, reassessment, recommitment and revitalization in what we do. A strategic vision and further opportunities to examine our business priorities and philosophy will prepare us for stronger leadership in our core businesses in the future.

I would like to thank the Board of Directors for their leadership and support in helping position the Ontario New Home Warranty Program so that it is well placed to meet the challenges of the future.

On behalf of the Board, I would like to extend our sincere appreciation to our staff for their loyalty, dedication, and continued commitment in these changing times.



Aubrey L. LeBlanc
President/Registrar

Security Requirements: Builder Bulletin 28

In 1995, ONHWP completed a thorough review of the policy regarding the taking and release of security in light of our need to be more vigilant in risk assessment and management. We wanted to level the playing field for builders while protecting our risk. We also wanted to better match our policy to the risk we assume.

We worked closely with the industry in reviewing a discussion paper setting out risk assessment parameters and security options in order that we might receive feedback before we revised the policy. Among the factors we examined were, not only building type, but builder experience and performance, geographical location, geotechnical conditions, lot densities, unit numbers, construction time frames, and contract vs. tract homes. We also examined the types of security instruments we accept: the timing of the taking and release of security as well as the amount.

At this date, ONHWP's security requirements for all vendor/builders are assessed on registration and renewal and, when appropriate, mid-term. All assessments are based on a thorough review of the vendor/builders' history, including size, tenure, business and technical skills, financial information, and project type. Security requirements for condominium projects and freehold units are set out in Builder Bulletin 28 (Revised).

Design and Site Review of Condominiums: Builder Bulletin 19

Significant changes in high-rise condominium construction combined with numerous repeated common element complaints, especially building envelope problems, prompted ONHWP to review the requirements of Builder Bulletin 19. The new Bulletin 19 requires that vendor/builders of high-rise condominium projects after March 1, 1995, must, as a condition of continued registration, provide ONHWP with (a) certification of the design by each member of the design team, (b) monthly

field reports during the construction process under a contract between the consultant and builder, underwritten by a minimum of \$1 million professional liability insurance, and (c) signed off documentation certifying that the site review process has been completed, and that all is in order. Six of the seven key focus areas in the certification documentation contain significant building envelope components.

Rogue Builders

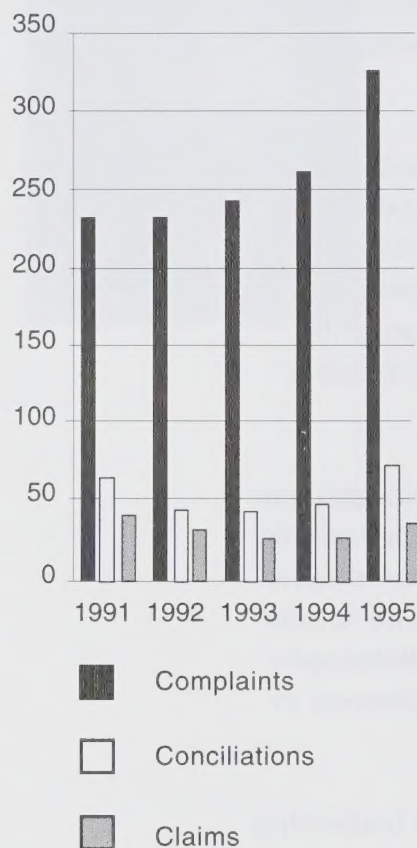
Illegal building in Ontario is a long-standing problem, one which has cost ONHWP more than \$12 million in claims over the past 20 years. Today, ONHWP is pursuing loss recovery options aggressively. Seven investigators, all officers of the court located around Ontario, follow up leads on non-complying builders, and enforce registration and enrolment. A full-time litigator dedicated to collections, is a member of ONHWP's in-house legal services. ONHWP is also augmenting efforts to recover outstanding claims monies.

Over the past six years, the number of builders investigated by ONHWP, and subsequently convicted, has increased dramatically. Last year, we registered 97 builders as a result of investigations; we laid 432 charges (sometimes multiple charges against the same person or corporation) and had 199 convictions. While illegal building traditionally accounted for up to 15 per cent of total claims paid, increased enforcement activity has resulted in such claims dropping to under 10 per cent of total claims paid in 1995.

Builder Insolvency

ONHWP has experienced increased claims activity over the past two years. Builder insolvency is currently ONHWP's leading claims issue; we anticipate this trend to continue to mid-1996. ONHWP stands in the shoes of the builder by repairing warrantable defects and by providing limited coverage on

Frequency



Frequency of Claims, Complaints, and Conciliations

Frequency of claims, complaints, and conciliations per 1,000 enrolments increased significantly in 1995 due to the correspondingly significant increase in the numbers of builders' insolvencies.

incomplete work. We also cover home buyers' deposits to a maximum of \$20,000 if a builder cannot complete the sale.

In 1995, ONHWP paid out \$8.7 million in claims: up to 90 per cent of these pertained to builder insolvencies. The number of claims increased from 687 in 1994 to 1,467 in 1995, an increase of 113 per cent. ONHWP's role in protecting consumers against builder insolvency lies at the heart of the reason why the originally voluntary builder-run warranty program was made mandatory in 1976.

High Temperature Plastic Venting

High temperature plastic venting is one of the most controversial claims issues we have ever experienced. ONHWP has assumed responsibility for the correction of all heating systems in new homes covered by ONHWP which use high temperature plastic venting on mid-efficiency furnaces. We will continue to do so until August 31, 1996, the deadline date stipulated in the Safety Order issued by the Ontario Ministry of Consumer and Commercial Relations last September.

To date, we have 3,100 active files, and believe there are more systems installed in new homes that will need to be corrected in the future.

Currently, we are installing a number of approved alternate venting systems. If by early spring, however, no approved retrofit product is available and furnace replacement is required, we will replace the furnace with an approved mid-efficiency product. Additionally, we have launched a class action law suit on behalf of the owners of both new and older homes to recover costs from responsible parties: the vent manufacturers, furnace manufacturers, and approval agencies. Because builders purchased approved heating systems that met all requirements, we do not hold them responsible.

Home Buyer's Guide to After Sales Service

ONHWP produces the annual publication, the *Home Buyer's Guide to After Sales Service*, to help consumers effectively research builders in their areas. This 160-page book, published since 1988, rates the customer service track records of registered builders on a named basis.

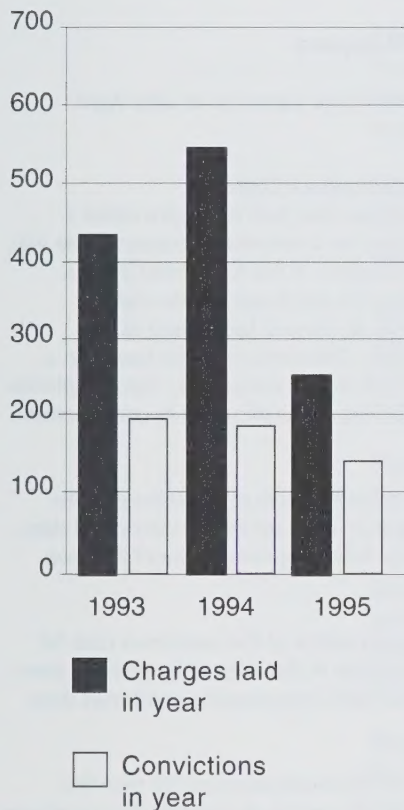
This free publication has proven to be both an excellent way of assisting consumers to choose a builder and an excellent tool in encouraging builders to improve their performances. A new feature in the 1995 Guide was recognition for builders who have sustained an "excellent" rating for five and ten years; they were easily identified by one and two stars respectively. Beyond this, ONHWP works with builders to promote its Seal of Excellence. A variety of promotional products are available for builders to advertise their successes.

Ernest Assaly Award

The above-mentioned efforts are coupled with the high-profile activities of selecting a builder in the province for the Ernest Assaly Award, a much coveted award within the residential building industry. Named after ONHWP's first chair, the award is given annually to the one builder who best demonstrates an outstanding commitment to quality of construction and after sales services. The award thereby acts as incentive to Ontario builders to improve and maintain their commitments to these services. The selection process is rigorous and has been carefully developed to be fair to small and large builders alike.

In 1994, ONHWP introduced the Service Excellence Award: an award presented to each of the six Regional candidates for the Ernest Assaly Award. Both the Service Excellence and Ernest Assaly Awards are presented to the winners at an Awards Luncheon at the annual OHBA Conference.

Enforcement



Court Enforcement

While conviction rates of unregistered builders/vendors changed little in 1995 over previous years, the number of fines levied by the courts increased significantly.

The Warranty

The Ontario New Home Warranty Program provides a total maximum coverage of \$100,000 on each home or condominium unit built for sale. Septic system claims on homes enrolled on or after July 1, 1993 are limited to a maximum of \$25,000. This cap is included in the \$100,000 maximum limit. Common elements

in condominiums are also covered from the date the project is registered as a condominium corporation, up to \$50,000 times the number of units, to a maximum of \$2.5 million. New home buyers receive the following coverage in the event that new home builders or vendors do not fulfill their obligations:

1. Deposit Protection

Deposits are protected up to a maximum of \$20,000, if the builder cannot or will not complete the sale, through no fault of the home buyer.

2. One-Year Warranty Protection

The builder warrants that the home is free from defects in work and materials, is fit to live in and meets the Ontario Building Code requirements for one year from the date of possession.

3. Two-Year Warranty Protection

For homes enrolled on or after January 1, 1991, the builder warrants for two years against:

- water seepage through the basement or foundation walls. (In condominiums, this protection includes all below-ground areas such as parking garages.)
- defects in materials and work including caulking, windows and doors so that the building envelope prevents water penetration.
- defects in materials and work in the electrical, plumbing and heating delivery and distribution systems.
- defects in materials and work which result in the detachment, displacement or deterioration of exterior cladding, leading to detachment or serious deterioration.
- violations of the Ontario Building Code's health and safety provisions.

4. Major Structural Defects

Homes enrolled before January 1, 1991 are covered for five years against Major Structural Defects. Homes enrolled on or after January 1, 1991 are protected for seven years.

A Major Structural Defect is defined in the *Ontario New Home Warranties Plan Act* as:

- any defect in materials or work that results in the failure of a load-bearing part of the home's structure, or
- any defect in materials or work that materially and adversely affects the use of the building as a home.

5. Protection Against Delayed Closings Without Advance Notice

A builder must not delay the closing date on the home without notifying the home buyer.

(i) Major Delay

A builder anticipating a delay in closing of more than 15 days must notify the home buyer at least 65 days before the original closing date and set a new closing date. The vendor may extend the confirmed occupancy date once by up to 120 days, if the home buyer is given written notice at least 65 days before the confirmed date.

(ii) Minor Delay

A builder anticipating a delay in closing of no more than 15 days beyond the original or extended date as outlined above must notify the home buyer at least 35 days before the original closing or extended closing date and set a new closing date.

The builder is allowed up to five days grace without penalty. Beyond that, any builder who fails to give proper notice will be required to compensate the home buyer up to \$100 a day in living expenses to a maximum of \$5,000 total out-of-pocket expenses resulting from the delay.

Note: To be compensated, the home buyer must close the sale. If the builder refuses to close, the home buyer should call the local ONHWP Office for advice. The home buyer should remember to keep receipts for expenses. Claim forms are available through the builder.

Exceptions: There is no compensation for delays caused by events beyond the builder's control, e.g., strikes, fires, civil insurrection, floods or Acts of God.

6. Protection Against Delayed Occupancy For Condominium Buyers

(For Agreements of Purchase and Sale signed on or after April 1, 1991)

(i) Confirmed & Tentative Occupancy Dates

Every Agreement of Purchase and Sale must give either a confirmed occupancy date, or a tentative occupancy date that is clearly identified as tentative. If the Agreement gives a tentative occupancy date, the purchaser has the right to receive notice of when he or she will be advised of the confirmed occupancy date. The notice is to be based on a date or an event which will trigger notice, e.g., the completion of the foundation or reaching a specific stage in construction.

(ii) Notice

The purchaser must be given this notice, as outlined in the Agreement, no later than 120 days before the confirmed date, and no later than 30 days following completion of the roof assembly.

If the purchaser is not given notice of the confirmed date 90 days prior to the tentative date in the original agreement, then the tentative date automatically becomes the confirmed date.

(iii) Earlier Occupancy

The builder is allowed to offer occupancy earlier than the confirmed date, but is not allowed to demand it. The purchaser must consent in writing to an earlier date.

(iv) Delays

As in the case for delayed closings for freehold houses, the vendor may extend the confirmed occupancy date once by up to 120 days, if the purchaser is given written notice at least 65 days before the confirmed date. The vendor can also have a 15-day extension if the purchaser is given 35 days notice.

In all cases vendors are allowed a five-day grace period.

(v) Exceptions

A vendor is not responsible for delays caused by strikes, fires, civil insurrections, floods or Acts of God.

7. Protection Against Substitutions Made Without The Purchaser's Agreement

The homeowner is protected against substitutions of key elements in a new home or condominium unit, and in condominium common elements, e.g., shared areas such as the parking garage and hallways, as set out in the Agreement of Purchase and Sale.

OFFICERS AND DIRECTORS

(As of April 1996)

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President, Heron Homes
Appointed: 1988

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President, Bank of Montreal Mortgage Corporation
Appointed: 1995

Michael Braid, Toronto

Vice-President, Mortgage Development, Financial Services Division, Toronto Dominion Bank
Appointed: 1994

Laverne Brubacher, St. Jacobs

President, Ontario Home Builders' Association
President, Menno S. Martin Contract Ltd.
Appointed: 1995

Ward Campbell, Hamilton

President, Starward Homes Ltd.
Appointed: 1995

Art Daniels, Toronto

Assistant Deputy Minister, Ministry of Consumer and Commercial Relations
Appointed: 1995

Denis Grayhurst, Scarborough

President, Denis Grayhurst Consulting Inc.
Appointed: 1996

Joan Huzar, Goderich

Member of the Board of Directors, Consumers Council
Appointed: 1987

Stephen Kaiser, Toronto **

President, Urban Development Institute
Appointed: 1993

Aubrey L. LeBlanc, Toronto

President/Registrar, Ontario New Home Warranty Program
Appointed: 1994

Daphne Lewis, Lasalle **

Consumers Council
Appointed: 1991

Ralph H. Lewis, Q.C., Toronto *

Legal Policy Advisor, Ministry of Consumer and Commercial Relations
Appointed: 1976

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Appointed: 1991

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Appointed: 1990

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Appointed: 1993

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Director, Cumming, Cockburn Ltd.
Appointed: 1992

Mayor Peter Robertson, City of Brampton **

Appointed: 1994

Tom Schwartz, Toronto

President, Intraurban Projects
Appointed: 1991

Paul Stinson, Belleville

President, Paul A. Stinson Builder Ltd.
Appointed: 1996

Mayor Robert Wade, Town of Ancaster

Appointed: 1996

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Investment Consultant
Appointed: 1988

Ralph H. Lewis, Q.C., North York

Appointed: 1995

Jack McCreadie, North York

President, Jack McCreadie & Company Limited
Appointed: 1996

Reginald T. Ryan, Etobicoke **

Retired Executive, Mortgage Insurance Industry
Appointed: 1994

Ron Sarginson, Manotick

President, Ron Sarginson Enterprises
Appointed: 1996

* Retired, September 1995

** Retired, April 1996

Committees of the Board

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Hugh Heron, Chair
Michael Braid
Joan Huzar
Ralph H. Lewis, Q.C. (non-voting)
Al Libfeld
John Mansfield
Ian F. Rawlings

Audit Committee

John Mansfield, Chair
Thomas R. Alton
Art Daniels
Joan Huzar
Ian F. Rawlings

Communications Committee

Laverne Brubacher, Chair
Don Boynton, St. Catharines **
Vice-President and General Manager,
OEB International
Andrew Brethour, North York
President, PMA Brethour Group
Denis Grayhurst
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Stephen Kaiser **
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Ralph H. Lewis, Q.C.
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Executive Vice-President,
Greenpark Homes

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Michael Braid
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Roger Greenberg, Ottawa
President, Minto Developments Inc.
Harry Herskowitz, Toronto
Partner, DelZotto, Zorzi,
Barristers & Solicitors
Tony Martens, London
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Senior Vice-President,
Goldlist Development Corporation
Phil McColeman **
John Teixeira, Portland
President, Teixeira Construction Inc.
Mayor Robert Wade

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Joan Huzar, Vice-Chair
Al Libfeld, Secretary
John Mansfield, Treasurer
Aubrey L. LeBlanc, President/Registrar

Vice-Presidents

Carole Bennett,
New Business
Dennis Brousseau,
Corporate Services & Quality
Ian Johnson,
Business Systems and Client &
Technical Services (Acting)
Bob Maling,
Regional Operations
Stephen Martin,
Legal Services
Willie Moskowitz,
Builder Services
Pat Varcoe,
Finance

* Retired, September 1995

** Retired, April 1996

Price Waterhouse

March 22, 1996

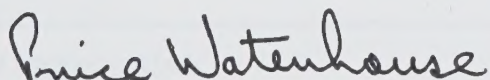
Auditors' Report

To the Board of Directors of
Ontario New Home Warranty Program

We have audited the balance sheet of Ontario New Home Warranty Program as at December 31, 1995 and the statement of operations, deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the program as at December 31, 1995 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Chartered Accountants
Toronto, Ontario

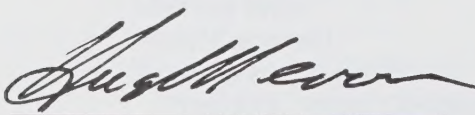
Ontario New Home Warranty Program

Balance Sheet

(in thousands of dollars)

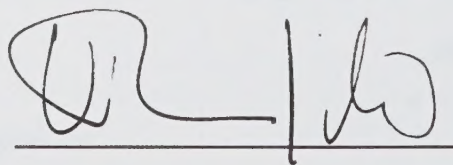
	December 31	
	1995	1994
Assets		
Current assets		
Cash	\$ 1,572	\$ 1,083
Accrued interest	984	945
Accounts receivable, prepaid expenses and other assets	79	69
	2,635	2,097
Investments (market value - \$54,270; 1994 - \$51,529) (Note 2)	51,035	53,210
Fixed assets (Note 3)	1,165	921
	<u>\$ 54,835</u>	<u>\$ 56,228</u>
Liabilities		
Current liabilities		
Accounts payable and accrued charges	\$ 2,971	\$ 3,217
Funds held as security (Note 4)	2,796	3,398
	5,767	6,615
Deferred revenue (Note 5)	34,465	40,990
Liabilities outstanding on claims from homeowners		
Provision for claims in process (Note 6)	13,485	12,760
Provision for plastic venting claims in process (note 6)	4,550	1,500
Deficit	(3,432)	(5,637)
	<u>\$ 54,835</u>	<u>\$ 56,228</u>

Approved by the Board



Hugh Heron

Director



John Mansfield

Director

Ontario New Home Warranty Program

Statement of Operations

(in thousands of dollars)

	Year ended December 31	
	1995	1994
Home enrolment fees received, net of refunds	\$ 14,447	\$ 17,419
Revenue		
Home enrolment fees earned, net of refunds	\$ 20,984	\$ 18,008
Builders' registration and renewal fees	1,871	1,978
Investment income, net	4,698	4,957
	27,553	24,943
Expenses		
Operating		
Salaries and benefits	8,996	9,147
General and administrative	5,239	4,964
Legal	1,484	1,053
Depreciation and amortization	308	220
	15,997	15,384
Claims incurred (Note 6)	5,851	4,217
Plastic venting claims incurred (note 6)	3,500	1,500
Cost of condominium refunds (Note 7)	-	1,100
Total expenses	25,348	22,201
Surplus of revenue over expenses for the year	\$ 2,205	\$ 2,742

Ontario New Home Warranty Program

Statement of Deficit

(in thousands of dollars)

	Year ended December 31	
	1995	1994
Deficit, beginning of year	\$ (5,637)	\$ (8,379)
Surplus of revenue over expenses for the year	2,205	2,742
Deficit, end of year	\$ (3,432)	\$ (5,637)

Ontario New Home Warranty Program

Statement of Changes in Financial Position

(in thousands of dollars)

	Year ended December 31	
	1995	1994
Cash provided by (used in)		
Operating activities		
Surplus of revenue over expenses for the year	\$ 2,205	\$ 2,742
Adjustments for noncash items		
Depreciation and amortization	308	220
Gain on sale of investments, net of amortization	(188)	(387)
Changes in noncash working capital	(897)	471
Change in deferred revenue	(6,525)	(593)
Claims paid during the year	(9,206)	(9,510)
Recoveries of claims paid	3,630	2,136
Claims incurred	9,351	5,517
	(1,322)	796
Investing activities		
Proceeds from sale of investments	19,906	23,982
Purchase of investments	(17,543)	(25,136)
Purchase of fixed assets	(552)	(222)
	1,811	(1,376)
(Decrease) increase in cash during the year	489	(580)
Cash, beginning of year	1,083	1,663
Cash, end of year	\$ 1,572	\$ 1,083

Ontario New Home Warranty Program

Notes to Financial Statements

December 31, 1995

(in thousands of dollars)

1. Summary of significant accounting policies

Revenue

Builder registration fees are taken into revenue upon registration and renewal fees are taken into revenue in the year in which they are due.

Home enrolment fees are deferred and taken into revenue as earned over the warranty period. The maximum warranty period is seven years. The rates under which revenues are earned relate to the amount of risk in each year of coverage as estimated by management, based primarily on the incidence of claims.

Depreciation and amortization

Data processing equipment is depreciated over a maximum period of four years on a straight-line basis. This equipment was previously written off in the year of acquisition.

Furniture and office equipment is depreciated at the rate of 20% per annum on a declining-balance basis.

Leasehold improvements are being written off on a straight-line basis over the term of the lease.

Claims

Claims incurred include claims paid and a provision for claims reported and in process. The provision is made when it is considered probable that a claim will be paid. A period of time may elapse from the time a provision is made for a claim and its eventual payment.

Claims recovered, which are generally recognized on a cash basis, and administrative charges recovered in respect of claims are offset against claims incurred.

Investments

Certificates of deposit with financial institutions, treasury bills and bankers' acceptances are stated at cost.

Bonds and mortgage-backed securities are stated at cost plus the unamortized discount or premium. Discount or premium on purchase is amortized over the term of the investment.

When a decline in the value of an investment is considered other than temporary a provision for loss is recorded to reduce the investment to its net realizable value with the amount of the reduction charged to earnings.

Pension expense

Pension expense includes the actuarial costs of pension benefits for employee services for the period and the amortization of costs of past service benefits and experience gains and losses. Amortization is carried out on a straight-line basis over the expected average remaining service life of pension plan members.

2. Investments

Investments consist of:

	1995	1994
Bonds		
Government of Canada (market value - \$2,564)	\$ 2,459	\$ 7,478
Provincial (market value - \$16,576)	15,628	13,878
Financial institutions (market value - \$18,216)	16,834	16,271
Mortgage-backed securities (market value - \$8,307)	8,279	10,294
Commercial (market value - \$8,607)	7,835	5,289
	\$51,035	\$53,210

3. Fixed assets

	Cost	Accumulated depreciation	Net	
			1995	1994
Data processing equipment	\$3,435	\$2,930	\$505	\$ 161
Furniture and office equipment	2,604	2,072	532	617
Leasehold improvements	761	633	128	143
	<u>\$6,800</u>	<u>\$5,635</u>	<u>\$1,165</u>	<u>\$921</u>

Ontario New Home Warranty Program
Notes to Financial Statements (continued)
December 31, 1995
(in thousands of dollars)

4. Funds held as security

Funds held as security represent cash deposits and accrued interest thereon held by Ontario New Home Warranty Program ("O.N.H.W.P.") from builders as security primarily for condominium builders, advance payments for claims and other warranty claims. These funds are either paid back to the builder when the program's requirements are met or used to pay claims.

5. Deferred revenue

Deferred revenue includes an enrolment fee deficiency provision which is determined as the excess of the value of estimated future losses on claims on warranties over unearned enrolment fees. The enrolment fee deficiency provision is \$10,134 at December 31, 1995 (1994 - \$17,328).

6. Claims incurred

Claims incurred consist of:

	1995 Claims	1994 Claims
Claims paid during the year	\$8,756	\$9,510
Less: Recoveries for claims paid	3,630	2,136
	5,126	7,374
Less: Provision for claims in process, January 1	12,760	15,917
	(7,634)	(8,543)
Add: Provision for claims in process, December 31	13,485	12,760
Claims incurred for the year	<u>\$5,851</u>	<u>\$4,217</u>

	1995 Plastic venting claims	1994 Plastic venting claims
(Note 8) Claims paid during the year	\$ 450	\$ -
Less: Provision for claims in process, January 1	1,500	-
	(1,050)	-
Add: Provision for claims in process, December 31	4,550	1,500
Claims incurred for the year	<u>\$3,500</u>	<u>\$1,500</u>

7. Cost of condominium refunds

In 1988, 1989 and 1990, certain condominium projects were enrolled by the program and registration and enrolment fees were collected at that time. The courts have since directed O.N.H.W.P. that these projects do not fall under the Ontario New Home Warranties Plan Act. Costs of \$1,100 were recorded in

1994 which represent an adjustment to the total estimated costs to O.N.H.W.P. with respect to these projects. Cumulative costs to date total \$2,900.

8. Plastic venting

In September 1995, the Ministry of Consumer and Commercial Relations issued a safety order stating that all high temperature heating systems using the Ultravent, Sel-Vent and Plexvent brands of plastic venting were defective and must be corrected by August 31, 1996.

The total claims cost to the program are estimated at \$5,000,000, of which \$1,500,000 was recorded in 1994. A lawsuit for recovery from the manufacturers as well as approval agencies has been launched. No provision for recovery has been made as the outcome of the lawsuit is not determinable at this time.

Effective March 1, 1996, an increase in enrolment fees of \$80 was initiated in order to offset the estimated claims costs.

9. Contingencies

As part of the normal course of its business, the program is a party to a number of lawsuits the outcome of which is not determinable at this time. In the opinion of management, these lawsuits should not result in significant losses to O.N.H.W.P.

10. Pension plan

In 1980, O.N.H.W.P. introduced a defined benefit pension plan for employees with pension benefits based on length of service subsequent to that date and average of best three consecutive years' earnings.

Effective January 1, 1994, O.N.H.W.P. established a defined contribution plan and existing members of the defined benefit plan were permitted to transfer their benefit entitlement to the new plan.

As at December 31, 1995, the combined plans' actuarial present value of accrued pension benefits is estimated to be \$4,384 (1994 - \$3,523) and the combined plans' value of pension fund assets is \$5,601 (1994-\$5,176).

11. Lease commitments

The program is committed under leases for rental of properties and computer equipment to the year 2002 as follows:

1996	\$1,521
1997	1,528
1998	1,493
1999	1,383
2000	1,170
Subsequent years	785

Total minimum lease payments	<u>\$7,880</u>
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12. Prior year's figures

Certain comparative figures have been reclassified to conform to the 1995 presentation.

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